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IN THIS ISSUE:

Japan's Trade Surplus Jumps 1

Tokyo Acts On Financial Scandals
As Washington Watches 5

Sharper Legislative Tools Being Prepared
To Open Japan's Financial Markets 8

Japan, Soviet Union Agree To Expedite
Resolution Of Territorial Dispute 11

Drift Nets, Fisheries Restrictions
Revive Japan's Image Problem 13

Japan's Trade Surplus Jumps

Like an ebbing tide a slowing economy often reveals much about underlying conditions. Japan's customs-clearance trade statistics for the July-September quarter are a good example. In dollar terms the nation's trade surplus jumped 41.7 percent over a year earlier (see Tables). The latest figures represented both the third straight quarter that the gap between exports and imports had widened on a year-to-year basis and the largest third-quarter imbalance since 1986. The rising trade surplus has made more visible some previously submerged explanations of the now-ended import surge -- such as factors that provided only a temporary boost to purchases from abroad.

As in the April-June period, the movement in the dollar-denominated surplus in the third quarter exaggerated the increase in the imbalance more than if it had been measured on a volume basis. Although exports jumped 9.5 percent in dollar terms, the increase came to only 2.9 percent when measured by volume. In contrast, dollar-denominated imports rose just 0.6 percent but increased in volume 2.3 percent. Hence, adjusted for price and exchange-rate changes, the

increase in Japan's July-September surplus was far less than when measured in dollars or yen.

Unlike the previous quarter, however, the surplus increased even in volume terms over the year-earlier quarter, as shown by the fact that export growth exceeded import growth. This point is significant in light of the evidence that many of Japan's major trading partners, including the largest -- the United States, probably continued in the throes of a recession. Officially at least, the Japanese expansion continues, albeit at a slower pace than in the past. Other factors equal, more rapid economic growth at home than in export markets would lead one to expect that the volume of Japanese imports would grow faster than that of exports, even allowing for the fact that some export markets continue to be healthy. What, then, explains the discrepancy?

A typical explanation, the value of the yen on international currency markets, probably is not a major factor in the movement of the price-adjusted external imbalance during the July-September period. Through most of the past year the Japanese currency has edged upward, standing nearly 8 percent higher against the dollar in the third quarter than a year earlier. If anything, the yen's appreciation would lead one to expect import growth to exceed export growth in volume terms, the reverse of what happened.

In this case the most important explanations appear to be not only the macroeconomic condition of Japan vis-a-vis its trading partners but long-run factors as well. First, the trade figures hint that the Japanese economy is in worse shape than government pronouncements recognize. The year-to-year increases in import volume of 0.6 percent and 2.3 percent over the past two quarters are the smallest since the days of the strong dollar in 1985 and far lower than during Japan's most recent officially recognized economic downturn, which ended in late 1986. Yoshio Suzuki of Nomura Research Institute explains Japan's rising surplus as being consistent with Japan and its trading partners being on different points in the business cycle; Japanese demand is still slowing, while that elsewhere is recovering. Hence, he sees the run-up in Japan's trade surplus as temporary.

Second, some of the factors once believed to be long run in nature now appear to have boosted imports only temporarily in the late 1980s. For example, a portion of the surge in imports after the yen started to appreciate in the fall of 1985 apparently resulted partly from the inflated incomes that accompanied financial speculation and Japan's "bubble" economy. This explanation contrasts with thinking at the time that the increment represented a structural change. As the stock market's value has stagnated and real estate speculators have experienced financial difficulty, Japan's high rollers have lost their appetite for expensive imported cars and other pricey foreign goods. This argument suggests that the current value of the trade surplus might be closer to a sustainable level than it was a year ago.

For Tokyo the latest figures have created a major headache. The reverse trend throughout 1991 has weakened, if not shattered, a long-standing argument -- that Japan's external imbalance, while still large by most measures, is falling. Furthermore, the chorus of complaints is likely to be heard in several languages. In the last two quarters Japan had surpluses of $13.4 billion with the European Community, $16.6 billion with Asian countries and $17.5 billion with the United States. Although the U.S. figure represents a 4.5 percent drop

Japan's Total Trade in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	$209,151	19.1%	$126,408	-2.4%	$82,743
1987	229,221	9.6	149,515	18.3	79,706
1988	264,917	15.6	187,354	25.3	77,563
1989	275,175	3.9	210,847	12.5	64,328
1990	286,948	4.3	234,799	11.4	52,149
1989: I	68,227	13.2	51,142	14.9	17,085
II	67,602	3.7	51,292	8.5	16,310
III	69,595	3.6	53,048	12.3	16,547
IV	69,751	-3.5	55,364	14.6	14,387
1990: I	66,705	-2.2	54,383	6.3	12,322
II	67,232	-0.5	53,954	5.2	13,278
III	72,189	3.7	56,547	6.6	15,642
IV	80,822	15.9	69,914	26.3	10,908
1991: I	76,384	14.5	61,820	13.7	14,564
II	74,003	10.1	56,253	4.3	17,750
III (p)	79,077	9.5	56,906	0.6	22,171

Japan's Total Trade in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	Y35,290	-15.9%	Y21,551	-30.7%	Y13,739
1987	33,315	-5.6	21,737	0.9	11,578
1988	33,939	1.9	24,006	10.4	9,933
1989	37,823	11.4	28,979	20.7	8,844
1990	41,457	9.6	33,855	16.8	7,602
1989: I	8,705	12.9	6,516	14.6	2,189
II	9,222	13.0	6,997	18.2	2,225
III	9,911	11.0	7,547	20.2	2,363
IV	9,985	9.3	7,919	29.4	2,067
1990: I	9,766	12.2	7,941	21.9	1,825
II	10,449	13.3	8,392	19.9	2,057
III	10,651	7.5	8,364	10.8	2,287
IV	10,592	6.1	9,159	15.7	1,433
1991: I	10,190	4.3	8,251	3.9	1,939
II	10,226	-2.1	7,771	-7.4	2,456
III (p)	10,855	1.9	7,820	-6.5	3,035

Japan's Trade with the United States in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	$80,456	23.3%	$29,054	12.6%	$51,401
1987	83,580	3.9	31,491	8.4	52,090
1988	89,634	7.2	42,037	33.5	47,597
1989	93,189	4.0	48,246	14.8	44,943
1990	90,322	-3.1	52,369	8.5	37,954
1989: I	22,726	14.4	11,599	15.0	11,127
II	22,997	6.4	12,064	15.4	10,933
III	24,117	4.6	12,462	16.8	11,655
IV	23,347	-7.0	12,120	12.0	11,227
1990: I	21,661	-4.7	12,753	9.9	8,908
II	20,938	-9.0	12,861	6.6	8,077
III	22,933	-4.9	12,729	2.1	10,204
IV	24,790	6.2	14,025	15.7	10,765
1991: I	22,324	3.1	13,247	3.9	9,077
II	20,309	-3.0	13,446	4.5	6,863
III (p)	23,700	3.3	13,102	2.9	10,598

Japan's Trade with the United States in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	Y13,564	-13.0%	Y4,918	-20.9%	Y8,646
1987	12,148	-10.4	4,582	-6.8	7,566
1988	11,487	-5.4	5,388	17.6	6,099
1989	12,816	11.6	6,632	23.1	6,184
1990	13,057	1.9	7,586	14.4	5,471
1989: I	2,899	14.1	1,478	14.6	1,421
II	3,139	16.0	1,648	25.9	1,491
III	3,436	12.2	1,773	25.0	1,663
IV	3,342	5.2	1,733	26.4	1,609
1990: I	3,171	9.4	1,862	26.0	1,309
II	3,254	3.7	2,000	21.4	1,254
III	3,384	-1.5	1,885	6.3	1,498
IV	3,249	-2.8	1,838	6.1	1,411
1991: I	2,978	-6.1	1,767	-5.1	1,211
II	2,807	-13.7	1,857	-7.2	950
III (p)	3,253	-3.9	1,801	-4.5	1,452

compared to a year earlier, the other figures are higher than in the comparable period of 1990. In the July-September quarter even the surplus with this country rose 3.9 percent. These numbers have ignited a debate in Japan about countermeasures. Alternatives include benign neglect on the grounds that the surge is temporary or, possibly, still more appreciation of the yen or measures to stimulate the economy, such as lower interest rates.

Douglas Ostrom

Tokyo Acts On Financial Scandals As Washington Watches

Although the stream of revelations concerning financial misconduct by Japanese securities firms and banks seems to have ceased for the moment, the Ministry of Finance continues to mete out penalties and examine proposed reforms of Japan's financial regulations and structures. The ministry's standard step-by-step approach for action, however, risks alienating both small Japanese investors and the U.S. government. Many of MOF's actions have been criticized at home and abroad as cosmetic, just as many of the issues raised by the financial scandals have been termed critical and fundamental.

After a summer in which repeated disclosures showed widespread pre-FY 1990 client compensation for stock trading losses by Japanese securities brokers, the country's four largest brokerage houses acknowledged in September that they had defied MOF's administrative guidance after December 1989 by compensating clients for stock trading losses to the tune of Y43.6 billion ($323 million at Y135=$1.00). As penance, the Big Four -- Nomura Securities Co., Ltd., Daiwa Securities Co., Ltd., Nikko Securities Co., Ltd. and Yamaichi Securities Co., Ltd. -- accepted the ministry's "suggestion" that they voluntarily withdraw for one month from the primary market for government bonds (see JEI Report No. 37B, October 4, 1991). While most Japanese observers agreed that this embarrassed the four brokerages, they also agreed that the financial pain inflicted on the firms would be minimal. (According to data on the latest bond offering, the government, not the brokers, appears to be bearing the brunt of the suffering; more than half of the issue was unsubscribed.)

Critics also charged that MOF's handling of the situation underscored the cozy, behind-closed-doors relationship between the ministry and the securities industry. The punishment, for example, was decided on by MOF officials without public input.

Stung by these comments MOF decided to investigate in a more open manner charges that Nomura Securities had manipulated the price of a railroad stock. During an unprecedented public questioning by a Finance official Nomura president Hideo Sakamaki admitted October 7 that Nomura employees did engage in "excessive promotion" of Tokyu Corp. shares in 1989. While MOF officials stress that this admission is not proof that Nomura manipulated the stock's price, such promotion is, itself, a violation of MOF's administrative rule that bans activities that interfere with the fair formation of stock prices.

To quell the controversy over the compensation and the manipulation revelations, MOF hit Nomura and the other Big Four companies with tougher sanctions than those imposed this summer (see JEI Report No. 27B, July 19, 1991). The new punishments, effective October 15, included: